



Health, Education and Human Services Division

B-270224

October 18, 1995

The Honorable John F. Kerry
United States Senate

Dear Senator Kerry:

As Medicare program costs continue to climb, the Congress is working to find better ways to provide and pay for beneficiaries' health care, both in the near term and in the more distant future. High on the list of issues under debate is the role of managed health care in the Medicare program. Many Congress members believe that Medicare beneficiaries should have more managed care options.

While more than 50 percent of those receiving health insurance through their employers are in some form of managed care, the comparable percentage of Medicare beneficiaries is much lower. Medicare beneficiaries now have one widely available managed care option besides fee-for-service medicine: they can enroll in health maintenance organizations (HMO) where such entities are available. Before an HMO can provide care to Medicare beneficiaries, however, the Health Care Financing Administration (HCFA) of the Department of Health and Human Services must grant its approval.¹

As of August 1995, 171 HMOs had received HCFA's approval to provide care to Medicare beneficiaries on a risk basis. In these cases, Medicare pays the HMO a capitated amount each month for every beneficiary who enrolls. In return, the HMO must provide all services reimbursed by Medicare.

¹Competitive Medical Plans (CMP) can also enroll Medicare beneficiaries with HCFA approval. CMPs are providers that operate like HMOs. They are subject to similar regulatory requirements except that they are permitted greater flexibility than HMOs in setting their commercial premium rates and the services they offer commercial members. For this correspondence, when we refer to "HMOs," we are referring to both HMOs and CMPs.

Under this arrangement, referred to as the Medicare risk contract program, the HMO bears the risk that the costs of caring for a sicker person might exceed the fixed payment.

We are currently conducting at your request a study of the rapidly changing patterns of Medicare HMO enrollment. Because some of the data we will include in that report would be useful to the Medicare reform debate in the next few weeks, you asked us to provide you with (1) annual growth rates in the number of beneficiaries enrolled in an HMO since 1987, (2) locations of large numbers of beneficiaries who have enrolled, and (3) comparisons of the percentage of Medicare beneficiaries enrolled in HMOs with the percentage of non-Medicare enrollees in each state.

To identify the number of Medicare beneficiaries in each state and those enrolled in HMOs, we used data obtained from HCFA. To identify the number of non-Medicare HMO enrollees, we used data from the Group Health Association of America's (GHAA) Patterns in HMO Enrollment.² We compared non-Medicare HMO enrollment to estimates of each state's population, less the number of Medicare beneficiaries, as published in HCFA's 1995 Data Compendium.

SUMMARY

The Medicare risk contract program began in the mid-1980s with modest enrollment but since then has grown significantly. By the end of 1987, about 1 million Medicare beneficiaries--or about 3 percent of the total--had enrolled in HMOs with risk contracts. The number increased to about 2.8 million--about 7 percent of the total--by August 1995. Overall, enrollment has grown each year, with more rapid growth occurring recently, as shown in enclosure 1. Between 1993 and 1994, the number choosing an HMO grew by about 25 percent and, continuing that trend, has again grown by nearly 25 percent during the first 8 months of 1995.

While Medicare beneficiaries are choosing an HMO in rapidly growing numbers, these beneficiaries are concentrated in a few states. As shown in enclosure 2, about 87 percent live in 10 states. Furthermore, about 55 percent live in just two states--California and Florida.

²Non-Medicare HMO enrollees include, among others, members of employer groups, individuals, federal employees (Federal Employees Health Benefits Program), and Medicaid recipients.

When compared with non-Medicare HMO enrollment, Medicare HMO enrollment is generally much lower. As shown in enclosure 3, as of 1994, 19 states had no Medicare HMO penetration, and 12 states had less than 1 percent of beneficiaries enrolled in an HMO. Only three states had 20 percent or more beneficiaries enrolled in an HMO. Beyond Medicare, HMO enrollment is a different story: in seven states, 30 percent or more of the non-Medicare population was enrolled in HMOs. Also, we found that only three states had no HMO enrollees.

Because these data are from HCFA's published reports and contain our calculations, we did not ask HCFA to comment on a draft of this correspondence.

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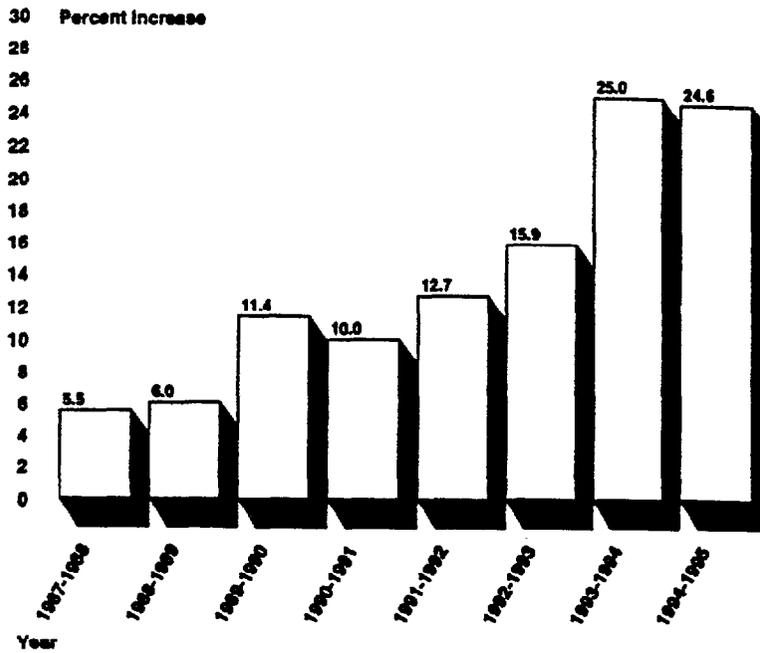
Should you have any questions about these data, please call me on (202) 512-7119. Contributors to this report include Michael Gutowski, Assistant Director; Joseph Petko; Rajiv Mukerji; Aleta Hancock; and Howard Cott.

Sincerely yours,



for Jonathan Ratner
Associate Director,
Health Financing Issues

YEARLY GROWTH RATES FOR MEDICARE BENEFICIARIES ENROLLING
IN HMOS WITH RISK CONTRACTS, 1987 THROUGH 1995



- Notes: 1. Data as of December of each year from 1987-1994.
2. Data as of August 1995.

Source: GAO calculations based on data from monthly reports, Office of Managed Care, HCFA.

TEN STATES WITH THE LARGEST NUMBER OF MEDICARE BENEFICIARIES
ENROLLED IN AN HMO WITH A RISK CONTRACT, AUGUST 1995

Ten states ranked in descending order	Total beneficiaries ^a	Percent of national total ^b
California	1,106,568	39.1
Florida	440,748	15.6
Arizona	175,165	6.2
New York	138,265	4.9
Texas	130,410	4.6
Pennsylvania	122,394	4.3
Oregon	108,499	3.8
Washington	87,218	3.1
Illinois	77,420	2.7
Colorado	65,309	2.3
Total for top 10 states	2,451,996	86.7
U.S. Total	2,826,947	

^aData as of August 1995.

^bDetail does not add to total due to rounding.

Source: Monthly Report, Medicare Prepaid Health Plans, Office of Managed Care, HCFA.

PERCENTAGE OF MEDICARE BENEFICIARIES ENROLLED IN AN HMO
COMPARED WITH PERCENTAGE OF NON-MEDICARE HMO
ENROLLEES FOR ALL STATES, 1994

State	Percentage of Medicare beneficiaries enrolled in HMOs	Percentage of non-Medicare HMO enrollees
Arizona	27.0	37.9
California	26.8	40.0
Oregon	22.2	40.5
Nevada	19.9	14.4
Florida	14.9	21.5
New Mexico	13.8	18.1
Colorado	12.2	26.3
Washington	10.3	17.5
Minnesota	9.1	29.5
Hawaii	9.1	25.3
Rhode Island	6.9	33.1
Illinois	4.3	19.0
Massachusetts	4.3	40.8
Texas	4.1	10.5
New York	3.9	27.7
Pennsylvania	2.7	25.3
Oklahoma	2.6	8.1
Missouri	1.9	17.1
Nebraska	1.3	11.0
Ohio	1.2	22.4
Kansas	0.6	12.7
Kentucky	0.5	14.2

Michigan	0.5	23.5
Louisiana	0.4	8.1
New Jersey	0.4	19.8
Maryland	0.3	41.1
Indiana	0.3	8.5
Alabama	0.3	11.6
Virginia	0.2	9.6
Delaware	0.1	23.9
Connecticut	0.04	32.3
New Hampshire	0.02	19.8
Alaska	0.0	0.0
Arkansas	0.0	4.6
District of Columbia	0.0	29.4
Georgia	0.0	10.0
Idaho	0.0	1.3
Iowa	0.0	5.0
Maine	0.0	7.3
Mississippi	0.0	0.3
Montana	0.0	1.8
North Carolina	0.0	9.8
North Dakota	0.0	1.4
South Carolina	0.0	4.9
South Dakota	0.0	3.5
Tennessee	0.0	19.1
Utah	0.0	21.5
Vermont	0.0	14.7
West Virginia	0.0	0.0
Wisconsin	0.0	28.5
Wyoming	0.0	0.0

Source: December 1994 Medicare HMO enrollment data from Monthly Report, Medicare Prepaid Health Plans, Office of Managed Care, HCFA. Number of Medicare beneficiaries and state population estimates as of July 1994 from 1995 Data Compendium, HCFA. Year-end 1994 non-Medicare HMO enrollment data from Patterns in HMO Enrollment, GHAA. Percent enrolled calculated by GAO.

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